

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 066303
ORIGIN EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 TRSE-00 COME-00 L-03
INT-05 ITC-01 DODE-00 CIAE-00 INR-07 NSAE-00 /050 R

DRAFTED BY EB/ISM:WCLENAHAN
APPROVED BY EB/ICD:EAWENDT
EB/ISM:ACHEWITT
TREAS:PBELFORD(SUB)
COMM: AMACONE(SUB)
L/EC:CROH

-----250229Z 092675 /13

P 250050Z MAR 77
FM SECSTATE WASHDC
TO USMISSION GENEVA PRIORITY
INFO AMEMBASSY LONDON PRIORITY

LIMITED OFFICIAL USE STATE 066303

PASS MICHAEL BOERNER

E.O. 11652: N/A

TAGS: EMIN C

SUBJECT:THE ITC BUFFER STOCK AND THE COMMON FUND

1. BACKGROUND: UNDER THE FIFTH ITA, PRODUCERS ARE REQUIRED TO CONTRIBUTE 20,000 MT OF TIN METAL AND CONSUMERS MAY MAKE VOLUNTARY CONTRIBUTIONS UP TO 20,000 MT. CONTRIBUTIONS MAY BE IN THE FORM OF METAL OR ITS CASH EQUIVALENT AT THE FLOOR PRICE, BUT BOTH PRODUCERS AND CONSUMERS INVARIABLY HAVE CONTRIBUTED CASH SINCE THAT IS CHEAPER FOR THEM WHEN THE MARKET PRICE OF TIN EXCEEDS THE FLOOR PRICE. UNDER THE FIFTH ITA, PRODUCERS TO DATE HAVE CONTRIBUTED THE CASH EQUIVALENT OF 7,500 MT OF TIN AT THE MALAYSIAN RINGIT 1,000
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 066303

PER PIKUL (133.3 LBS) FLOOR PRICE EFFECTIVE IN JULY 1976. THIS IS EQUAL TO ABOUT US DOLLARS 49 MILLION. THE 12,500MT BALANCE OF PRODUCER CONTRIBUTIONS IS CALLABLE ON DEMAND BY THE COUNCIL. SIX CONSUMERS HAVE VOLUNTARILY AGREED TO CONTRIBUTE, BUT HAVE NOT YET PAID, APPROXIMATELY 30 MILLION DOLLARS EQUIVALENT TO 4,600MT OF TIN AT THE PRESENT FLOOR PRICE OF MALAYSIAN RINGITS 1,075 PER PIKUL. THE BUFFER

STOCK HAS BEEN SOLD OUT SINCE EARLY JANUARY AND ITS FUNDS, PROBABLY IN EXCESS OF 50 MILLION DOLLARS, ARE INVESTED IN SHORT-TERM MONEY MARKET INSTRUMENTS.

II. BUFFER STOCK OPERATIONS: THE ITC TAKES FULL TITLE TO TIN OR CASH CONTRIBUTIONS. BY COUNCIL RESOLUTION, CASH MAY BE HELD BY THE BUFFER STOCK MANAGER (BSM) FOR BUYING TIN OR MAY BE INVESTED IN SHORT-TERM PLACEMENTS, NORMALLY WITH COMMERCIAL BANKS IN WEST EUROPE, THE UK AND THE US. WHEN THE BSM INVESTS SURPLUS CASH, HE DOES SO UNDER GENERAL AUTHORITY GRANTED BY COUNCIL RESOLUTION AND UNDER THE OVERALL GUIDANCE OF THE COUNCIL'S BUFFER FINANCE COMMITTEE. PLACEMENTS ARE NORMALLY IN THE FORM OF 30-60 DAY DEPOSITS AT MARKET RATES (NOW ABOUT 9.5 PERCENT INTEREST IN THE UK WHERE ABOUT 40 PERCENT OF THE BUFFER STOCK FUNDS ARE PLACED). MONEY MARKET PLACEMENTS ARE CALLABLE ON DEMAND AT DISCOUNTED RATES.

WHEN THE BSM BUYS TIN, HE PURCHASES ON BEHALF OF THE ITC WHOSE OWNERSHIP IS VESTED IN NEGOTIABLE TIN WARRANTS (E.G., WAREHOUSE RECEIPTS). ACCORDINGLY, WHEN THE BSM WANTS TO BORROW MONEY TO BUY ADDITIONAL AMOUNTS OF TIN, HE OBTAINS A BLANKET RESOLUTION FROM THE COUNCIL AUTHORIZING HIM TO BORROW FUNDS AND TO PLACE EXISTING WARRANTS WITH APPROVED BANKS AS COLLATERAL. IN PRACTICE, THE BSM HAS OPEN LINES OF CREDIT WITH FIVE COMMERCIAL BANKS UNDER WHICH HE BORROWS FUNDS, IMMEDIATELY BUYS TIN AND THEN LODGES THE NEW WARRANTS AS PRIMARY COLLATERAL AGAINST THE LOANS. ADDITIONAL EXISTING WARRANTS REPRESENTING TIN PURCHASED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 066303

WITH CONTRIBUTED FUNDS ARE ALSO LODGED WITH THE LENDING BANKS AS SECONDARY COLLATERAL FOR COVERAGE OF SHORT-FALLS OF THE PRIMARY COLLATERAL. THE BSM NORMALLY IS ABLE TO BORROW 75-80 PERCENT OF THE VALUE OF WARRANTS.

III. POSSIBILITY OF MELDING ITC BUFFER STOCKS INTO A POOLED COMMON FUND: THERE ARE TWO POSSIBLE SCENARIOS UNDER WHICH THE ITC'S RESOURCES COULD BE CONTRIBUTED TO A POOLED COMMON FUND OF INDIVIDUAL BUFFER STOCKS. THE FIRST SCENARIO WOULD BE AS AN INVESTMENT WHEREIN THE BSM WOULD DEPOSIT ON SHORT TERM HIS SURPLUS FUNDS IN A POOL IN THE SAME MANNER THAT HE NOW PLACES THE FUNDS IN THE MONEY MARKET. THIS PROCEDURE WOULD NOT REQUIRE AMENDMENT OF THE FIFTH ITA, BUT WOULD REQUIRE COUNCIL RESOLUTION AND THE APPROVAL OF THE BUFFER FINANCE COMMITTEE. IN THIS INSTANCE, THE BSM WOULD REQUIRE THE SAME ASSURANCES THAT HE NOW OBTAINS IN THE MONEY MARKET, E.G., SECURITY OF INVESTMENT, A HIGH DEGREE OF LIQUIDITY AND A COMPETITIVE RATE OF RETURN. LIQUIDITY WOULD PROBABLY BE OF PRIME

IMPORTANCE, SINCE THE BSM MUST BE ABLE TO MOVE INTO THE MARKET ON SHORT NOTICE TO MODERATE PRICE FLUCTUATIONS.

THE SECOND SCENARIO WOULD BE A RECIPROCAL ARRANGEMENT WITH THE POOL WHEREBY THE ITC WOULD COMMIT FUNDS TO THE

POOL, WITH OR WITHOUT INTEREST PAYMENTS AND 100 PERCENT REPAYMENT ASSURANCE, IN EXCHANGE FOR A COMMITMENT FROM THE POOL TO PROVIDE FUNDS AS NEEDED TO THE ITC.

IN EITHER CASE, THE QUESTION ARISES AS TO WHETHER THE ITC COULD CONTRIBUTE RESOURCES TO THE POOL IF IT HAD ONLY TIN IN THE BUFFER AND WAS SHORT OF CASH. CONCEIVABLY, IT COULD DO THIS, BUT ONLY TO THE EXTENT THAT IT HOLDS WARRANTS NOT PLEDGED AGAINST LOANS OR TO THE EXTENT THAT IT COULD DRAW ON UNCALLED CONTRIBUTIONS. IF IT HAD ONLY UNPLEDGED WARRANTS, IT COULD PLEDGE THE WARRANTS WITH LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 066303

COMMERCIAL BANKS AND BORROW FUNDS TO CONTRIBUTE TO THE POOL. IT WOULD PROBABLY NOT PLACE ITS WARRANTS WITH THE POOL SINCE THERE WOULD BE A QUESTION AS TO WHETHER THE POOL WOULD REPAY THE STOCKS AT THE MARKET PRICE FOR TIN AT THE TIME OF THE INVESTMENT OR AT THE TIME OF REPAYMENT. IN ANY CASE, IF THE BSM HELD ONLY TIN, IT WOULD INDICATE A FALLING MARKET, ONE IN WHICH THE BSM COULD FORSEE THE NEED TO BUY ADDITIONAL TIN TO SUPPORT TIN PRICES. IN THIS SITUATION HE WOULD BE RELUCTANT TO PLEDGE HIS WARRANTS TO OBTAIN FUNDS FOR THE POOL.

IT IS IMPORTANT TO NOTE, HOWEVER, THAT DURING THE PAST TEN YEARS THE BSM HAS HAD TO USE MOST OR ALL OF HIS PURCHASING AUTHORITY TO BUY TIN (I.E., THE BUFFER STOCK HELD ONLY TIN AND NO CASH) ON ONLY THREE OCCASIONS (1968-69, 1973 AND 1975-76) TOTALLING ABOUT THREE YEARS. DURING THE BALANCE OF THE TEN YEAR PERIOD, THE BSM HAS BEEN IN A HIGHLY LIQUID POSITION HAVING LITTLE OR NO TIN AND A LARGE CASH POSITION. WHILE THIS IS, IN PART, A FUNCTION OF LAGGING PRODUCTION AND THE OVER-RELIANCE ON EXPORT CONTROLS, IT DOES INDICATE THAT THE BSM HAS HAD SURPLUS FUNDS WHICH COULD HAVE GONE INTO A POOL. IN THE FUTURE, WE EXPECT A BETTER BALANCE BETWEEN SUPPLY AND DEMAND, WITH LESS RELIANCE ON EXPORT CONTROLS AND MORE RELIANCE ON BUFFER STOCKS OPERATIONS. THIS WOULD RESULT IN A LESS LIQUID POSITION FOR THE BSM, BUT WE STILL ESTIMATE THAT HE WOULD HAVE EXTENSIVE PERIODS OF HIGH LIQUIDITY WHEN HE COULD INVEST IN A POOL.

AN IMPORTANT CONSIDERATION IN EVALUATING THE POSSIBILITY OF ITC CONTRIBUTIONS TO A POOL IS THAT SOME PRODUCERS

WITH FOREIGN EXCHANGE DIFFICULTIES (BOLIVIA, INDONESIA, ZAIRE) HAVE BORROWED FUNDS FROM THE IMF TO MAKE THE CONTRIBUTIONS TO THE ITC BUFFER STOCK. BECAUSE THEY HAVE INVESTED BORROWED FUNDS, THEY LOOK ON THE BUFFER STOCK AS A PRODUCTIVE INVESTMENT WHICH MUST GIVE A RATE OF RETURN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 066303

EQUAL TO THE INTEREST THEY PAY TO THE IMF. THESE PRODUCERS,

AS WELL AS PRODUCERS NOT USING THE IMF FACILITY, WOULD LOOK ASKANCE AT ANY POOLING ARRANGEMENT WHICH WOULD NOT ENSURE FULL REPAYMENT OF THEIR INVESTMENT AT INTEREST RATES AT LEAST COMPARABLE TO THOSE OF THE IMF. ALSO, THESE PRODUCERS MIGHT RESIST ANY ITC BUFFER STOCK INVESTMENT IN A POOL, ARGUING THAT THE POOL SHOULD BE A SOURCE OF FINANCE AND RECEIVE FUNDS DIRECTLY FROM PARTICIPATING GOVERNMENTS OR INTERNATIONAL FINANCIAL INSTITUTIONS RATHER THAN INDIRECTLY THROUGH PRODUCERS AND THE ITC. A SIMILAR PROBLEM COULD ARISE IN THE CASE OF MALAYSIA, THAILAND, AND NIGERIA WHERE THE MINING INDUSTRY IS DIRECTLY ASSESSED THE AMOUNT CONTRIBUTED BY THEIR GOVERNMENTS. THESE INDUSTRIES MIGHT THUS ARGUE THAT THEIR FUNDS SHOULD ONLY BE USED TO DEFEND TIN PRICES.

FINALLY, OVER THE YEARS, THE BSM'S AUTHORITY HAS EXPANDED FROM THAT OF A BUYER IN THE LOWER RANGE AND SELL- IN THE UPPER RANGE TO ONE OF BEING BOTH A BUYER AND SELLER IN BOTH RANGES SO AS TO LEVEL DIFFERENTIAL MARKETS. AT ANY ONE TIME THE BSM MAY BE BUYING IN ONE MARKET AND SELLING IN ANOTHER TO DAMPEN SPECULATIVE ARBITRAGE AND, AT THE SAME TIME, MAY BE ACTIVE IN THE SPOT OR FUTURE MARKET TO LESSEN CONTANGO OR BACKWARDIZATION SPREADS. TO DO THIS, HE MUST RETAIN IN HIGHLY LIQUID FORM A SUBSTANTIAL AMOUNT OF THE BUFFER STOCKS ASSETS, PROBABLY AN AMOUNT EQUAL TO 4,00MT OF TIN.

COMMENT: LIQUIDITY IS THE KEY TO THE BSM'S OPERATIONS. ANY POOLED COMMON FUND WOULD HAVE TO TAKE THIS NEED INTO ACCOUNT BY ASSURING THE ITC THAT IT COULD WITHDRAW ITS FUNDS OR HAVE ACCESS TO OTHER FUNDS ON VERY SHORT NOTICE, E.G., PROBABLY WITHIN THIRTY DAYS.

NOTE: UNDER ARTICLE 24, INVESTMENT OF BUFFER STOCK FUNDS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 06 STATE 066303

REQUIRES A DISTRIBUTED TWO-THIRDS MAJORITY VOTE OF

PRODUCERS AND CONSUMERS. BORROWING REQUIRES UNANIMOUS
VOTE OF PRODUCERS AND MAJORITY VOTE OF CONSUMERS.
COMBINED INVESTMENT/BORROWING AUTHORITY INVOLVED IN
PARTICIPATION IN A POOL WOULD THUS REQUIRE ALL PRODUCERS
AND TWO-THIRDS OF CONSUMERS, OR ELSE THE FIFTH ITA WOULD
HAVE TO BE AMENDED. ADDITIONAL OBLIGATIONS ON ANY MEMBER
OF ITA ARE NOT PERMITTED WITHOUT THAT MEMBER'S CONSENT.

VANCE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMODITIES, FUND ALLOTMENT, METALS, MINING INDUSTRY, BUFFER AREAS
Control Number: n/a
Copy: SINGLE
Sent Date: 25-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE066303
Document Source: CORE
Document Unique ID: 00
Drafter: WCLENAHAN
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770102-0116
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770321/aaaaarwi.tel
Line Count: 233
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7a2fd0b1-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2994728
Secure: OPEN
Status: NATIVE
Subject: THE ITC BUFFER STOCK AND THE COMMON FUND
TAGS: EMIN, EEC
To: GENEVA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/7a2fd0b1-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009